

BASS, BERRY & SIMS PLC

A PROFESSIONAL LIMITED LIABILITY COMPANY
ATTORNEYS AT LAW

T. G. PAPPAS
TEL: (615) 742-6242
FAX: (615) 742-2742
EMAIL: tgppapas@bassberry.com

315 DEADERICK STREET, SUITE 2700
NASHVILLE, TENNESSEE 37238-0002
(615) 742-6200

KNOXVILLE OFFICE:
900 SOUTH GAY STREET, SUITE 1700
KNOXVILLE, TN 37902
PHONE (865) 521-6200

MEMPHIS OFFICE:
THE TOWER AT PEABODY PLACE
100 PEABODY PLACE, SUITE 950
MEMPHIS, TN 38103-2625
PHONE (901) 543-5900
FAX (901) 543-5999

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July 18, 2000

CHIEF OF THE
EXECUTIVE SECRETARY

HAND DELIVERY

Mr. K. David Waddell
Executive Director
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

00-00637

Re: Petition of Tennessee-American Water Company for Approval of and Authority to Borrow up to \$30,100,000 to Refinance Outstanding Indebtedness and Finance Additions and Improvements to Facilities and Acquisitions and to Repay Short-Term Indebtedness Pursuant to T.C.A. Section 65-4-109

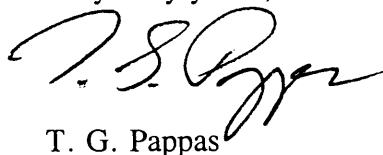
Dear Mr. Waddell:

Enclosed please find the original and thirteen copies of a Petition for filing in the above-styled matter. The Petition seeks the approval of the Tennessee Regulatory Authority for Tennessee-American to borrow up to \$30,100,000 from time to time, as more fully set forth in the Petition. Attached to the Petition is one Exhibit. We would appreciate your cooperation in expediting this matter. Enclosed is our check for \$25.00 filing fee.

If you have any questions or need any additional information, please do not hesitate to let me know.

With kindest personal regards, I remain

Very truly yours,



T. G. Pappas

TGP/ch
Enclosure

cc: Dr. Chris Klein
Mr. Michael Horne
Mr. William F. L'Ecuier
Mr. Herbert A. Miller
George H. Masterson, Esq.

2127098.1

POSTED
7/18/00

BEFORE THE TENNESSEE REGULATORY AUTHORITY

Nashville, Tennessee

IN RE: PETITION OF TENNESSEE-AMERICAN)
WATER COMPANY FOR APPROVAL OF)
AND AUTHORITY TO BORROW UP TO)
\$30,100,000 TO REFINANCE OUTSTANDING)
INDEBTEDNESS AND FINANCE ADDITIONS)
AND IMPROVEMENTS TO FACILITIES)
AND ACQUISITIONS AND TO REPAY)
SHORT-TERM INDEBTEDNESS PURSUANT)
TO T.C.A. § 65-4-109)

Docket No. _____

00-00637

PETITION

Comes the Petitioner, Tennessee-American Water Company ("Company") and respectfully represents and shows to the Tennessee Regulatory Authority ("Authority") as follows:

1. The Company is a Tennessee corporation with its principal office and place of business in the City of Chattanooga, Hamilton County, Tennessee. It is a public utility as defined in T.C.A. § 65-4-101 and is engaged in the business of rendering water utility services in and adjacent to the City of Chattanooga and in other municipalities in Hamilton and Marion Counties in Tennessee, and in certain areas in Catoosa, Dade and Walker Counties, Georgia. The Company is a wholly-owned subsidiary of American Water Works Company, Inc. ("AWWC").

2. The Company owns, operates, manages and controls plants, property, equipment and facilities within and adjacent to the City of Chattanooga which are used and useful in the collection, purification, pumping, distribution and furnishing of potable water to the public. The Company currently serves approximately 69,907 customers in Tennessee and Georgia. The Company is subject to the jurisdiction, regulation and supervision of the Authority pursuant to Chapter 4 of Title 65 of the Tennessee Code Annotated.

3. The capitalization of the Company at May 31, 2000 amounted to \$79,525,245, and consisted of long-term debt and a lease obligation outstanding in the aggregate principal amount of \$43,465,642, preferred stock in the amount of \$1,553,000, and common equity in the amount of \$34,506,603.

4. The long-term debt of the Company at May 31, 2000 (including the current portions thereof described above) is represented by seven outstanding series of general mortgage bonds ("General Mortgage Bonds") issued under and secured by an Indenture of Mortgage dated as of May 1, 1968 from The City Water Company of Chattanooga (now the Company) to The Fidelity Bank (now First Union National Bank), as Trustee (Trustee), as supplemented and amended by thirteen supplemental indentures thereto dated, respectively, as of February 1, 1971; August 1, 1972; November 1, 1975; June 1, 1978; October 1, 1979; March 1, 1982; January 1, 1983; May 1, 1988; December 1, 1989; September 1, 1990; June 1, 1992; June 1, 1993; and September 1, 1996 (hereinafter collectively the Indenture) and a capital lease for the Company's offices, as follows:

<u>LONG-TERM DEBT</u>	<u>MATURITY DATE</u>	<u>AMOUNT OUTSTANDING</u>
9.25% Series	December 1, 2019	\$ 2,500,000
9.43% Series	September 1, 2000	5,000,000
8.28% Series	June 1, 2002	10,000,000
8.25% Series	June 1, 2005	3,200,000
6.77% Series	June 1, 2003	9,000,000
7.84% Series	September 1, 2026	5,700,000
6.50% Series	June 1, 2008	<u>6,500,000</u>
		\$ <u>41,900,000</u>
Obligations Under Capital Lease		<u>1,565,642</u>
		\$ <u><u>43,465,642</u></u>

5. As of May 31, 2000, the Company had no outstanding indebtedness other than the General Mortgage Bonds and such capital lease, except current liabilities (including short-term bank debt).

6. All series of General Mortgage Bonds and all classes of capital stock of the Company outstanding at May 31, 2000 were duly authorized by Orders of the Authority (or its predecessor, the Tennessee Public Service Commission) heretofore entered on the basis of previous proceedings conducted by it relative thereto.

7. As an alternative to the General Mortgage Bond financing described above, the Company desires to participate in a financing program recently developed by AWWC for use by all of its operating subsidiaries, including the Company, in meeting their long-term financing needs. Under this financing program, the Company will enter into a nonexclusive Financial Services Agreement (the "Services Agreement") with American Water Capital Corp. ("Water Capital"), also a wholly-owned subsidiary of AWWC, in substantially the form attached hereto as Exhibit A. Pursuant to the Services Agreement, Water Capital will periodically solicit from the Company, and each of AWWC's other utility subsidiaries, estimates of their needs for long-term financing for the next several years. On the basis of that information, Water Capital will register its own debt securities (the "Water Capital Securities") for sale in the public market by filing a shelf registration statement with the Securities and Exchange Commission. These debt securities will be obligations of Water Capital, but AWWC will issue a "support letter" for the benefit of the holders of such debt securities. From time to time thereafter, as the Company needs a portion of its long-term financing needs funded, Water Capital will sell a portion of the Water Capital Securities covered by the shelf registration statement to an underwriter or a group of underwriters, for resale in the public markets, or to an investor or lender, and will loan the proceeds of the sale of those Water Capital Securities to the Company. The loan from Water Capital to the Company will be on terms (e.g., interest rate, redemption premium, sinking fund requirement, maturity) identical to the terms of the securities sold in the public markets by Water Capital and will be evidenced by a written note. The Services

Agreement obligates the Company to pay all of the Water Capital's costs related to the Water Capital Securities issued to fund the loan to the Company, plus, along with the other participating operation subsidiaries, its proportionate share of Water Capital's overhead.

8. The Services Agreement also provides that the Company may utilize Water Capital to meet its short-term (maturity of less than one-year) borrowing requirements through advances funded by a syndicated credit facility arranged by Water Capital and its cash management needs.

9. The Company believes that utilizing the above-described program to finance its long-term needs will enable it to lower its borrowing costs significantly. The Company expects that borrowings from Water Capital under the above described program will result in interest rates that are approximately 20 basis points less than comparable borrowing rates. Moreover, the Company expects that the out-of-pocket borrowing costs that will be passed through to the Company by Water Capital will be lower than those borne by the Company in selling General Mortgage Bonds.

10. The Company's participation in the Water Capital borrowing program does not preclude it from borrowing from third parties. The Company is not required to borrow any amount from Water Capital. Further, the Company may terminate its participation in the Water Capital borrowing program upon ten day's written notice.

11. Subject to the necessary authorization of the Authority, the Company proposes to issue securities to Water Capital in the form of notes or debentures (the "Company Securities") in an aggregate outstanding principal amount of \$30,100,000 from time to time prior to December 31, 2005, the proceeds of which will be used to (a) refinance the following General Mortgage Bonds: (i) the 9.43% Series maturing on September 1, 2000, in the principal amount of \$5,000,000; (ii) the 8.28% Series maturing June 1, 2002 in the principal mount of \$10,000,000; and (iii) the 6.77% Series maturing on June 1, 2003 in the principal amount of \$9,000,000, and (b) finance additions and

improvements to the Company's plants, property, equipment and facilities and acquisitions, and to repay short-term borrowings. The terms of the Company Securities will include the following:

- a. Title of the Securities: Water Capital Securities.
- b. Aggregate Principal Amount to be Issued: Up to an aggregate amount of \$30,100,000.
- c. Expected Date of Issue: It is anticipated that the first issue of Company Securities will occur on or about September 1, 2000, and as required thereafter through December 31, 2005.
- d. Date of Maturity: The maturity of the Company Securities will not be more than 50 years from the nominal date of issue, with the expectation that the maturity dates will be from 1 to 35 years, depending upon market conditions.
- e. Interest Rate(s): The interest rates on the Company Securities will be the same as those borne by the Water Capital Securities from which the Company Securities were funded and will be determined by market conditions at the time of issuance. It is anticipated that the Water Capital Securities will be sold carrying an interest rate spread of approximately 200 basis points above the interest rate borne by corresponding United States Treasury securities, based upon current market conditions.
- f. Interest Payment Dates: Interest on the Company Securities will be payable to coincide with the dates as Water Capital must pay its corresponding interest payment on the related Water Capital Securities.
- g. Callability and Conversion Provisions: The Company Securities will have the same callability and conversion features as Water Capital obtains in connection with one related Water Capital Securities, including provisions for redemption of the option of Water Capital (and, therefore, of the Company) or tender at the option of the purchasers as may be negotiated with the agent or purchaser(s) of the Water Capital Securities. The Company Securities will have no conversion features.
- h. Sinking or Other Fund Provisions: The Company Securities will reflect whatever terms Water Capital can obtain in connection with that sale of the related Water Capital Securities.
- i. Purpose: The purpose for which the Company proposes to issue the Company Securities is to refinance or repay the General Mortgage Bonds described above and finance additions and improvements to the Company's plants,

property, equipment and facilities and acquisitions, and to repay short-term borrowings.

12. Upon the execution of each Company Security, the Company will undertake to file with the Authority copies of the Company Security and any documents related thereto, including the offering materials for the Water Capital Securities from which the Company Security was funded.

13. The program for financing set out in this petition:

(a) has been approved by the Company's Board of Directors effective June 15, 2000;

(b) the purposes for which the funds derived therefrom will be used are in the best interests of the Company and the customers that it serves;

(c) provides terms and conditions for the financing that are the best available at this time; and

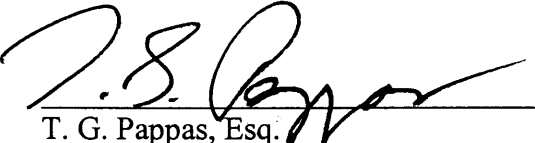
(d) is in accordance with and within the authority of the Authority pursuant to T.C.A. Section 65-4-109 and should, therefore, be approved.

PREISES CONSIDERED, PETITIONER PRAYS THAT THE COMPANY BE
AUTHORIZED TO:

1. Issue the Company Securities to Water Capital from time to time, as described in this
Petition;
2. Use the cash proceeds arising from such issuance for the purposes set forth in this
Petition; and
3. Have such other relief as it might be entitled to in this cause.

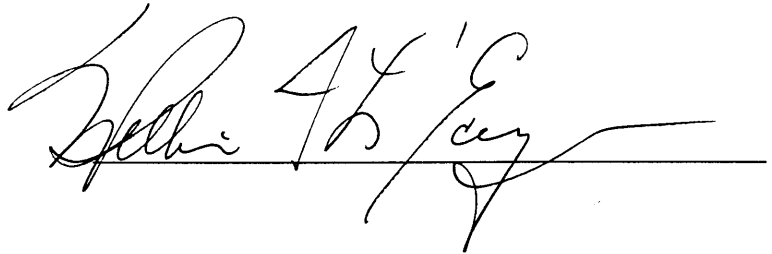
TENNESSEE-AMERICAN WATER COMPANY

By: 

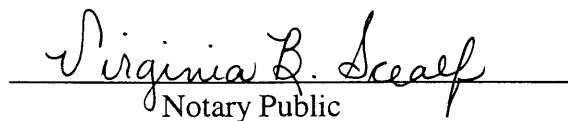

T. G. Pappas, Esq.
George H. Masterson, Esq.
Bass, Berry & Sims PLC
315 Deaderick Street, Suite 2700
Nashville, Tennessee 37238-0002
Telephone: 615/742-6242
ATTORNEY FOR PETITIONER,
TENNESSEE-AMERICAN WATER COMPANY

STATE OF TENNESSEE)
)
COUNTY OF HAMILTON) ss:

William F. L'Ecuyer, upon oath, says that he is President of Tennessee-American Water Company, a Tennessee corporation, Petitioner in the above-entitled cause; that as such officer of said Corporation, he has executed the foregoing Petition and has authority to do so; that he has read said Petition and knows the contents thereof; and that the statements therein contained are true to the best of his knowledge, information and belief.

A handwritten signature in cursive script, appearing to read "William F. L'Ecuyer", is written over a horizontal line.

Subscribed and sworn to before
me, the undersigned authority,
this 11th day of July, 2000.


Notary Public

My commission expires April 7, 2004.

2120926.3

EXHIBIT A

FORM OF FINANCIAL SERVICES AGREEMENT

FINANCIAL SERVICES AGREEMENT

THIS AGREEMENT, dated as of June 15, 2000, by and between Tennessee-American Water Company (the "Company") and American Water Capital Corp. ("AWCC").

B A C K G R O U N D

The Company currently performs its own financial services.

However, the Company has determined that it can obtain these services more efficiently through the consolidation of certain necessary management and staff functions with those performed for other entities that may enter into agreement with AWCC substantially similar to this one ("Co-Participants").

AWCC is dedicated to performing such consolidated functions.

Accordingly, the parties have determined to enter into this Agreement for the provision of financial services by AWCC to the Company and for the proper determination and allocation of the costs of providing such services.

Therefore, the parties agree as follows:

A G R E E M E N T

1. Services. AWCC will provide, either directly or through arrangements with third parties for the benefit of the Company, such financial services as the Company and AWCC may from time to time agree, including but not limited to those more fully described in Appendix I attached to this Agreement.

2. Costs. In consideration of the provision of the services contemplated by paragraph 1, the Company agrees to pay AWCC a portion of the costs and appropriate overhead incurred by AWCC in providing those services, as follows. The costs incurred by AWCC in connection with its bank credit lines and short-term public borrowings will be divided among the Co-Participants in proportion to the maximum principal amount that each Co-Participant requests be made available to it during the course of a year. The costs incurred by AWCC in connection with each long-term borrowing by AWCC will be divided among each Co-Participant in proportion to the principal amount of that borrowing that is loaned to that Co-Participant. AWCC's overhead will be allocated among the Co-Participants in the same proportion as each Co-Participant's long-term and maximum, requested short-term borrowings and investments in a calendar year bear to all of the long and maximum short-term borrowings and investments by all Co-Participants during the same year.

3. Statements. AWCC will prepare and deliver to the Company monthly statements of the services provided by AWCC and amounts payable to AWCC, giving effect to

all the provisions of this Agreement. The Company shall pay the net amount shown on its statement within thirty (30) days after the billing date.

4. Inspection. Upon reasonable notice, AWCC will make available to the Company for its inspection AWCC's books, records, bills, accounts and any other documents which describe or support the costs allocated to the Company under this Agreement.

5. Obligations Not Joint. AWCC and the Company expressly agree: (a) that the obligations of the Company and each Co-Participant to AWCC are several and not joint; (b) that the Company will not be responsible to any Co-Participant, to AWCC or to any assignee or creditor of AWCC for any payment in excess of payments due by the Company to AWCC under this Agreement or a Note in the form attached to this Agreement; and (c) that no Co-Participant will be responsible to the Company, to any other Co-Participant, to AWCC or to any assignee or creditor of AWCC for any payment in excess of payments due by that Co-Participant to AWCC under any agreement substantially similar to this Agreement or under any Note attached to that other agreement. AWCC covenants and agrees that it will require, as a condition to its entering into any such other agreement with a Co-Participant, that such other agreement contains the same provision as that contained in the immediately preceding sentence.

6. Notes. The Company's borrowings under this Agreement will be evidenced by one or more promissory note in the form of Exhibit A or Exhibit B attached to this Agreement.

7. Non-Exclusivity. Nothing in this Agreement prohibits or restricts the Company from borrowing from third parties, or obtaining services described in this Agreement from third parties, whenever and on whatever terms it deems appropriate.

8. Effectiveness. This Agreement shall be effective as of June 15, 2000, provided that, if prior approval by the regulatory commission of any jurisdiction is required before this Agreement may become effective as to the Company, or before AWCC may provide a particular service hereunder to the Company, this Agreement shall not be effective as to the Company or as to that service, as the case may be, unless and until the required approval has been obtained. Unless and until this Agreement becomes effective as to the Company in whole or in part, the Company shall not be entitled to the benefits of, nor shall it have any rights or duties under, this Agreement. This Agreement may be amended or rescinded only by written instrument signed by the Company and AWCC.

9. Termination. The Company may terminate its participation in this Agreement by giving ten (10) days prior written notice of such termination to AWCC; and (b) AWCC may terminate this Agreement by giving ninety (90) days prior written notice of such termination to the Company. Termination of this Agreement will not affect: (a) the Company's obligations under any Promissory Notes; (b) any party's obligations with respect to any amounts owing under Sections 2 and 3 of this Agreement (including such amounts attributable to obligations of any terminating party under any Promissory Notes that remain outstanding after this Agreement is terminated as to that party); or (c) AWCC's obligations to repay any investments made by a Company pursuant to Appendix I.

10. Copies. This Agreement may be executed by the parties in one or more copies and each executed copy shall be considered an original.

In witness of the foregoing, each of the Company and AWCC has caused its respective corporate seal to be affixed to this Agreement and has caused this Agreement to be signed on its behalf by its duly authorized officers.

ATTEST:

TENNESSEE-AMERICAN WATER COMPANY

By: _____
Herbert A. Miller, Jr.
Secretary

By: _____
William F. L'Ecuyer
President

ATTEST:

AMERICAN WATER CAPITAL CORP.

By: _____
Title:

By: _____
Name and Title:

APPENDIX I

DESCRIPTION OF FINANCIAL SERVICES

Set forth below is a list of the services which AWCC agrees to provide to the Company upon its request pursuant to the Agreement to which this Appendix is attached.

1. Short-Term Loans. AWCC will provide Short-Term Loans to the Company pursuant to the terms set forth in the promissory notes to be issued by the Company to AWCC, each substantially in the form attached to this Agreement as Exhibit A.

2. Long-Term Borrowings. AWCC will provide loans other than Short-Term Loans to the Company pursuant to the terms set forth in the promissory notes to be issued by the Company to AWCC, each substantially in the form attached hereto as Exhibit B.

3. Cash Management. Cash not required by the Company to pay its daily disbursements or to pay when due the principal of and interest on, the Company's borrowings from AWCC other than Short-Term Loans will be used by AWCC first to reduce the outstanding principal balance of the Company's Short-Term Loans owing to AWCC and any excess will be deemed to be invested with AWCC and will earn a daily rate of interest that is equal to the interest income earned by AWCC on those funds. Upon the request of that Company, AWCC shall execute one or more promissory notes in favor of the Company, in form and substance substantially similar to the Promissory Note attached as Exhibit A to the Agreement as evidence of such investment.

EXHIBIT A
PROMISSORY NOTE
FOR SHORT-TERM LOANS

\$ _____, 2000

FOR VALUE RECEIVED, [NAME OF COMPANY], a _____ corporation (herein "Borrower") hereby promises to pay ON DEMAND to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at Voorhees, New Jersey or such other place as Lender may from time to time designate, the principal sum of _____ dollars (\$_____) (the "Maximum Principal Sum"), or such lesser amount as shall equal the aggregate unpaid principal amount of the loans made by Lender to Borrower (other than loans evidenced by a promissory note under which the principal amount is due and payable in one or more scheduled installments more than one year after the date of its issue), together with interest thereon from the date hereof until paid in full. Interest will be charged on the unpaid outstanding principal balance of this Note at a rate per annum equal to Lender's actual cost of funds to make such loan, such rate to change as Lender's actual cost of funds changes. Interest on borrowings shall be due and payable on the first business day of each month, commencing with the first business day of the month after the month in which this Note is executed. In the absence of manifest error, the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

Borrower may borrow, repay and reborrow hereunder in amounts which do not, in the aggregate outstanding at any time, exceed the Maximum Principal Sum.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of

Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of the parties hereto.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

[BORROWER]

By: _____
Name and Title:

EXHIBIT B
PROMISSORY NOTE
FOR LONG-TERM BORROWINGS

\$ _____, 2000

FOR VALUE RECEIVED, [NAME OF COMPANY], a _____ corporation (herein "Borrower") hereby promises to pay to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at _____ or such other place as Lender may from time to time designate, the principal sum of _____ dollars (\$ _____), together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which the Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal amount hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as the Lender must pay with respect to the borrowings it made in order to provide funds to the Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of Lender and Borrower.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

[BORROWER]

By: _____
Name and Title:

PROMISSORY NOTE
FOR SHORT-TERM LOANS

\$10,910,000.00

June 15, 2000

FOR VALUE RECEIVED, TENNESSEE-AMERICAN WATER COMPANY, a Tennessee corporation (herein "Borrower") hereby promises to pay ON DEMAND to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at Voorhees, New Jersey or such other place as Lender may from time to time designate, the principal sum of TEN MILLION NINE-HUNDRED TEN THOUSAND dollars (\$10,910,000.00) (the "Maximum Principal Sum"), or such lesser amount as shall equal the aggregate unpaid principal amount of the loans made by Lender to Borrower (other than loans evidenced by a promissory note under which the principal amount is due and payable in one or more scheduled installments more than one year after the date of its issue), together with interest thereon from the date hereof until paid in full. Interest will be charged on the unpaid outstanding principal balance of this Note at a rate per annum equal to Lender's actual cost of funds to make such loan, such rate to change as Lender's actual cost of funds changes. Interest on borrowings shall be due and payable on the first business day of each month, commencing with the first business day of the month after the month in which this Note is executed. In the absence of manifest error, the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

Borrower may borrow, repay and reborrow hereunder in amounts which do not, in the aggregate outstanding at any time, exceed the Maximum Principal Sum.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

- (a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;
- (b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such

law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

- (c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and

"Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000, between Borrower and Lender to which reference is made for a statement of additional rights and obligations of the parties hereto.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

TENNESSEE-AMERICAN WATER COMPANY

By: _____
William F. L'Ecuyer
President